

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00 FRB-01

TRSE-00 ISO-00 RSC-01 /016 W

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P 191833Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 5826

INFO USMISSION OECD PARIS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 15114

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

OECD, PARIS FOR TREASURY UNDER SECRETARY JACK BENNETT

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: CHANCELLOR HEALEY'S COMMENTS ON SECRETARY SIMON'  
AND SECRETARY KISSINGER'S SPEECHES ON ENERGY

SUMMARY: CHANCELLOR HEALEY HAD NOT HAD TIME TO FULLY  
STUDY SECRETARY SIMON'S TEXT. HE THOUGHT SECRETARY  
KISSINGER'S SPEECH MORE CONSTRUCTIVE IN TONE THAN EARLIER  
STATEMENTS. HE FELT THAT U.K. COULD SUPPORT U.S. PROPO-  
SALS PROVIDED THAT THE NEW U.S. SUPPLEMENTARY FINANCIAL  
MECHANISM AND THE BRITISH WITTEVEEN MACH II PROPOSAL ARE  
SEEN AS BEING COMPLEMENTARY RATHER THAN COMPETITIVE.  
EFFORTS TO CONSERVE ENERGY AND REDUCE RELIANCE ON IMPORTS  
FROM OPEC COUNTRIES COULD LEAD TO A REDUCTION IN OUTPUT BY  
OPEC, BUT THIS IS A RISK THAT MUST BE RUN. END SUMMARY.

1. TREASURY REPS CALLED ON CHANCELLOR HEALEY TO GIVE HIM  
COMPLETE TEXT OF SECRETARY SIMON'S NOVEMBER 18 ADDRESS.  
SECRETARY KISSINGER'S NOVEMBER 14 TEXT HAD ALREADY BEEN  
SUPPLIED TO HEALEY. HEALEY HAD ALREADY READ A SUMMARY  
OF SECRETARY SIMON'S SPEECH FROM BRITISH EMBASSY WASHING-  
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TON BUT SAID HE LOOKED FORWARD TO STUDYING SECRETARY SI-

MON'S COMPLETE TEXT.

2. HEALEY BEGAN BY STATING SECRETARY KISSINGER'S NOVEMBER 14 SPEECH HAD BEEN MORE CONSTRUCTIVE THAN TONE IN EARLIER STATEMENTS IN WHICH THE "VELVET GLOVE HAD WORN THIN." HEALEY SAID THAT OVER THE WEEKEND, DURING CABINET MEETING AT CHEQUERS, HE HAD ARGUED THAT THE U.K. COULD SUPPORT THE U.S. ENERGY PROPOSALS PROVIDED THAT THE U.S. PLAN FOR NEW SUPPLEMENTARY FINANCING MECHANISM WAS COMPLEMENTARY TO HEALEY'S OWN WITTEVEEN MACH II PROPOSALS, RATHER THAN COMPETITIVE. THE TWO COULD BE SEEN AS COMPLEMENTARY TO EACH OTHER. HEALEY HOPED THAT THE U.S. PROPOSAL MIGHT BE DEVELOPED WITHIN A G-10 OR GAB CONTEXT, RATHER THAN TOO CLOSELY LINKED TO THE FORMAL OECD FRAMEWORK.

3. HEALEY WAS PLEASED THAT SECRETARY SIMON'S SPEECH SPECIFICALLY MENTIONED THE UK INCREASE IN VAT ON GASOLINE. HE SAID THAT TWO MORE PACKAGES OF A NONBUDGETARY NATURE AIMED AT ENERGY CONSERVATION WOULD BE INTRODUCED BEFORE THE END OF THE YEAR. HE WAS ANXIOUS TO SEE AN INCREASE IN U.S. TAX ON GASOLINE AS WELL, GIVEN PER CAPITA U.S. ENERGY CONSUMPTION.

4. LOOKING AHEAD TO CONSERVATION MEASURES BY OIL CONSUMING COUNTRIES TO REDUCE OIL IMPORTS, HE BELIEVES THERE IS A DANGER THAT THE ARAB RESPONSE WOULD BE TO CUT BACK PRODUCTION. ON THE OTHER HAND, THIS IS A RISK THAT MUST BE TAKEN. IN THE SHORT RUN, DURING THE NEXT FEW YEARS, CONSERVATION MEASURES AND OPERATING ON ENERGY CONSUMPTION THROUGH THE PRICE MECHANISM IS THE MAJOR ELEMENT OPEN TO THE WEST. IN MORE GENERAL TERMS, HE SUSPECTED THAT THE U.S. WOULD HAVE DIFFICULTY IN CONVINCING THE FRENCH AND THE JAPANESE TO COOPERATE IN ANY PROGRAMS THAT MIGHT BRING THEM INTO CONFLICT WITH OPEC.

5. HEALEY WAS PLEASED THAT THE U.S. PROPOSALS APPEAR TO RECOGNIZE THAT THERE IS A RECYCLING PROBLEM AND THAT STRAINS ARE INCREASING ON THE BANKING SYSTEM. HEALEY UNDERSTOOD THAT THE ARABS ARE BECOMING HESITANT ABOUT PLACING THEIR FUNDS DIRECTLY IN THE U.S. HE CONSIDERED CONFIDENTIAL

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THE SAME WOULD ALSO BE TRUE FOR PLACING THEIR FUNDS IN INSTITUTIONS THAT THE ARABS CONSIDERED TO BE DOMINATED BY THE U.S. RETURNING TO HIS OWN WITTEVEEN MACH II PROPOSALS HEALEY BELIEVED DISCUSSION OF THIS AND THE ATTENDANT RECYCLING QUESTIONS IN THE IMF WOULD BE A FORUM WHERE AN EARLY PRODUCER/CONSUMER DISCUSSION COULD TAKE PLACE. BASED ON HIS CONVERSATIONS WITH ARAB OFFICIALS VISITING LONDON, HE BELIEVED HIS PROPOSAL WOULD RECEIVE A FAIRLY

POSITIVE RECEPTION FROM THEM. HEALEY HOPED TO VISIT THE MIDDLE EAST, INCLUDING SAUDI ARABIA, BEFORE THE END OF THE

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ACTION EB-04

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TO SECSTATE WASHDC PRIORITY 5827

INFO USMISSION OECD PARIS PRIORITY

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 15114

LIMDIS GREENBACK

PASS TRSE/FRB

YEAR IF U.K. DOMESTIC SITUATION PERMITS. HOPEFULLY, THE IMF'S INTERIM COMMITTEE MEETING IN JANUARY WOULD BE ABLE TO MAKE PROGRESS ON THE MACH II PROPOSAL, ESPECIALLY IN LIGHT OF VERY GOOD IMF STAFF WORK AND PAPERS BEING CURRENTLY PRODUCED ON THE SUBJECT.

6. THROUGHOUT HIS COMMENTS, HEALEY CONTINUED TO STRESS HIS HOPE THAT THE U.S. AND U.K. PROPOSALS WOULD BE SEEN AS COMPLEMENTARY RATHER THAN AS COMPETITIVE. HE HOPED THAT U.S. WOULD SEE THEM AS SUCH, AND ACKNOWLEDGE THIS POINT IN FUTURE STATEMENTS. IN REPLY TO A QUESTION, HEALEY SAID THAT THE BORROWERS HE ENVISAGED USING THE MACH II FACILITY COULD BE ANY IMF MEMBERS, NOT NECESSARILY THE INDUSTRIALIZED MEMBERS.

7. ON RELATED POINT, HEALEY EXPRESSED BELIEF THAT EC WOULD MOVE AHEAD WITH ITS \$3 BILLION JOINT BORROWING, AND THAT THIS WOULD BE QUICKLY EXHAUSTED.

8. IN FURTHER DISCUSSION AFTER THE HEALEY MEETING, LITTLER, UNDER SECRETARY OF H.M. TREASURY, WHO WAS PRESENT

THROUGHOUT, INDICATED THAT CURRENT U.K. THINKING ON THE  
WITTEVEEN MACH II PROPOSAL WAS THAT IT MIGHT BE  
ABLE TO ACCOMMODATE ONE OR TWO MAJOR INDUSTRIALIZED BOR-  
ROWERS, BUT NOT MORE. OTHER BORROWERS COULD BE THOSE NOT  
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COVERED BY THE U.S. PROPOSALS. LITTLER INDICATED THAT AS  
HE UNDERSTOOD IT, FRENCH AND JAPANESE RELUCTANCE TO AGREE  
TO U.S. PROPOSALS WAS IN PART RHETORICAL, AND IN PART  
FEAR OF DOING ANYTHING THAT COULD BE SEEN AS CONFRONTATION  
WITH OPEC. LITTLER SAID U.K. RESERVATIONS TOWARD DISCUS-  
SION OF U.S. PROPOSAL IN OECD RATHER THAN G-10 STEMMED IN  
PART FROM MANAGEMENT OF OECD, IN WHICH U.K. DOES NOT  
HAVE GREAT CONFIDENCE, IN PART FROM OECD MEMBERSHIP, I.E.,  
AN OECD PLAN COULD EVENTUALLY COME UNDER PRESSURE TO LEND  
TO OECD LDCS AT CONCESSIONARY RATES. LITTLER SAID  
HE HAD LUNCHEDED ON NOVEMBER 18 WITH HABERER OF FRENCH FI-  
NANCE MINISTRY. HABERER THOUGHT BEST WAY TO PROCEED ON  
U.S. PROGRAM MIGHT BE TO NEGOTIATE IT IN G-10 BY OFFICIALS  
AND HAVE IT AGREED TO IN G-5 BY MINISTERS. LITLER BE-  
LIEVED THIS COMMENT PROBABLY AN ACCURATE REFLECTION OF U.K  
VIEW AS WELL.  
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